

EXHIBIT C

Example: A dog left alone in the home, chews through the permanently installed draperies.

This loss was proximately caused by a domestic animal, thus coverage does not apply.

The "consisting of" language in the paragraph 1. exclusions serves to eliminate the legal position that the loss is not caused by the excluded event, but "consists of" only the excluded event. The "consisting of" language does not, however, eliminate the need to identify the proximate cause of the loss. If the most important, or proximate, cause is covered, the loss is covered even if the loss "consists of" the excluded event.

Example: The intense heat from a fire in the garage causes the concrete floor to spall and crack. Even though the loss "consists of" cracking, an excluded event, the spalling and cracking is covered. The most important, or proximate, cause (fire) is covered. Therefore, the portion of the loss "consisting of" spalling and cracking is also covered.

At the end of the paragraph (1) section of Losses Not Insured, the policy states:

"However, we do insure for any resulting loss from items
a. through m. unless the resulting loss is itself a Loss
Not Insured by this section."

Example: A dog overturns an open paint container. Spilled paint ruins the family room carpet.

The dog caused the container to overturn. This was the proximate cause of the loss. There was direct contact between the dog and the container. A resulting loss occurred when the paint (not the dog) came in contact with the carpet. The carpet damage is a covered, resulting loss.

Example: A 20-year-old electric range top overheats due to an internal mechanical breakdown. Subsequently, the countertop and cabinets catch fire.

This loss was proximately caused by mechanical breakdown which is not covered. However, the resulting loss of fire (which is not a Loss Not Insured) is covered. We would pay for the countertop and cabinets, but not the damage to the range top which is attributable to the excluded mechanical breakdown.

2. Paragraph (2) language:

"We do not insure under any coverage for any loss which would not have occurred in the absence of one or more of the following excluded events. We do not insure for such loss regardless of: (a) the cause of the excluded event; or (b) other causes of the loss; or (c) whether other causes acted concurrently or in any sequence with the excluded event to produce the loss; or (d) whether the event occurs suddenly or gradually, involves isolated or widespread damage, arises from natural or external forces, or occurs as a result of any combination of these..."

If the listed losses not insured were the proximate cause or contributed in some

way to the loss, regardless of the sequence of events, coverage will *not* apply to any portion of the loss.

Example: Water below the surface of the ground exerts pressure on the foundation wall, causing the wall to bow.

This loss was proximately caused by water below the surface of the ground. It is not covered.

Example: An underground drainage pipe slowly leaks into a hillside. The hillside becomes saturated and eventually slides into the insured's garage causing extensive damage.

This loss was proximately caused by the repeated leakage of the drainage pipe. However, since earth movement significantly contributes to the damage that occurs, the entire loss is excluded.

Note: Individual states/provinces may have a different causation analysis standard regardless of policy language.

3. Paragraph (3) language:

"We do not insure under any coverage for any loss consisting of one or more of the items below. Further we do not insure for loss described in paragraphs 1. and 2. immediately above regardless of whether one or more of the following: (a) directly or indirectly cause, contribute to or aggravate the loss; or (b) occur before, at the same time, or after the loss or any other cause of the loss...

The intent of this language is to exclude only that portion of the loss attributable to conduct (such as negligent construction) or defect, regardless of whether it is the proximate cause or contributed in some way to the loss.

This exclusion operates to eliminate the conduct or defect from consideration in analyzing the cause of loss, unless the loss consists solely of the conduct or defect itself, in which case coverage does not apply. In other words, only the actual physical peril occurring should be subject to the coverage analysis.

Under this section, we do insure for resulting losses, unless the resulting loss is a loss not insured.

Example: Claim is made to replace a roof that was installed defectively.

This claim consists solely of defective construction. There is no coverage because there is no accidental direct physical loss.

Example: A defective fitting on the plumbing system fails, causing a pipe to break, and flooding the house with water.

The defective fitting is the proximate cause of the loss. However, since this portion of the loss is attributable to conduct or defect, it is eliminated from consideration in analyzing causation. Since the water damage is not excluded, the entire loss is covered, except the portion of the loss consisting of conduct or defect. The defective fitting should not be paid for.

IV. TREE ROOTS

OPERATION GUIDE

DATE	GENERAL CLASSIFICATION	SUBJECT	NUMBER
08-03-2011	Claim Practices Fire	Water Damage Losses	75-20

I. PURPOSE

This Operation Guide provides information and establishes guidelines for handling water damage claims.

II. GENERAL

Homeowners policy forms provide coverage under certain situations for direct loss caused by water. Building structures are covered for accidental direct physical loss, unless specifically excluded, while personal property is covered on a named perils basis.

The following discussion of water damage losses is based upon contract language contained within the Homeowners policy. All policy language quoted is found in Homeowners forms FP-7955, FP-7945, and FP-7155.5 unless otherwise noted. Coverage may apply differently in other types of policies. When adjusting losses where the policy language differs from the language cited, refer to that particular contract.

III. SECTION I - LOSSES NOT INSURED

Most policies contain the following or similar language.

LOSSES NOT INSURED, paragraph 1. states:

"We do not insure for any loss to the property described in Coverage A which consists of, or is directly and immediately caused by, one or more of the perils listed in items a. through n. below, regardless of whether the loss occurs suddenly or gradually, involves isolated or widespread damage, arises from natural or external forces, or occurs as a result of any combination of these:"

A. Freezing

"b. freezing of a plumbing, heating, air conditioning or automatic fire protective sprinkler system, or of a household appliance, or by discharge, leakage or overflow from within the system or appliance caused by freezing. This exclusion only applies while the dwelling is vacant, unoccupied, or being constructed. This exclusion does not apply if you have used reasonable care to:

- (1) maintain heat in the building; or
- (2) shut off the water supply and drain the system and appliances of water;"

When the insured dwelling is vacant, unoccupied, or under construction, losses caused by freezing are not covered unless the insured uses reasonable care to maintain heat in the dwelling or has turned off the water supply and drained systems and appliances of water. If the insured uses reasonable care and still sustains a loss caused by freezing, we would pay the reasonable cost to repair or replace the damaged system or appliance, including the cost to thaw frozen pipes and drainage systems in addition to the resultant water damage to covered personal property.

Exercise good judgment when determining whether the insured has used "reasonable care" since this standard may vary depending upon time of year, geography, etc. For more specific information on freeze losses, see OG 75-100.

B. Continuous and Repeated Seepage or Leakage of Water

"f. continuous or repeated seepage or leakage of water or steam from a:

- (1) heating, air conditioning or automatic fire protective sprinkler system;